

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Ruth Hughes Memorial District Library	County Lapeer
Fiscal Year End 12/31/2006	Opinion Date 06/18/2007	Date Audit Report Submitted to State 06/25/2007	

We affirm that:

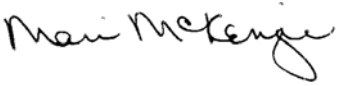
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-----|-------------------------------------|--------------------------|---|
| 1. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| 3. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.		Telephone Number (989) 635-7518	
Street Address 3149 Main Street #4; PO Box 218		City Marlette	State MI
Authorizing CPA Signature 		Zip 48453	
Printed Name Mari McKenzie		License Number 1101010725	

Ruth Hughes Memorial District Library

Annual Financial Statements

and

Auditors' Report

December 31, 2006

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Ruth Hughes Memorial District Library
Imlay City, Michigan
List of Elected and Appointed Officials
December 31, 2006

LIBRARY BOARD

DONALD DAVENPORT

PRESIDENT

NANCY MARSHALL

VICE PRESIDENT

LAURIE DODGE

SECRETARY

LINDA PRENDERGAST

TREASURER

MARY LOU BISSETT

TRUSTEE

BETTIE KOERBER

TRUSTEE

KAREN HIBBLER

TRUSTEE

ADMINISTRATION

BRYAN CLOUTIER

LIBRARY DIRECTOR



3149 Main Street, Suite Plaza #4
Marlette, MI 48453
Phone (989) 635-7518
Fax (989) 635-3226

Independent Auditors' Report

To the Board
Ruth Hughes Memorial District Library
Imlay City, Michigan

We have audited the accompanying financial statements of the governmental activities and major funds of Ruth Hughes Memorial District Library, as of and for the year ended December 31, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. The financial statements are the responsibility of the Ruth Hughes Memorial District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Ruth Hughes Memorial District Library, at December 31, 2006 and its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Yeo & Yeo, P.C.

Marlette, Michigan
June 18 2007

Ruth Hughes Memorial District Library
Statement of Net Assets
December 31, 2006

	<u>Primary Government</u>
Assets	
Current assets	
Cash	\$ 444,561
Taxes receivable	282,736
Penal fines and other receivables	<u>11,283</u>
Total current assets	<u>738,580</u>
Capital assets, net	
Non-depreciated	24,399
Depreciated	<u>772,601</u>
Total capital assets	<u>797,000</u>
Total assets	<u>1,535,580</u>
Liabilities	
Current liabilities	
Accounts payable	4,510
Accrued payroll and related liabilities	6,832
Noncurrent liabilities	
Building note - due within one year	27,098
Building note - due more than one year	<u>310,394</u>
Total liabilities	<u>348,834</u>
Net Assets	
Invested in capital assets	459,508
Unrestricted	<u>727,238</u>
Total net assets	<u>\$ 1,186,746</u>

See Accompanying Notes to Financial Statements

Ruth Hughes Memorial District Library
Statement of Activities
Year Ended December 31, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary government				
Governmental activities				
Recreational and culture	\$ 324,311	\$ 5,074	\$ 10,247	\$ (308,990)
General revenues				
Property taxes				283,085
Fines and forfeits				66,029
State aid - unrestricted				8,133
Interest and investment earnings				21,832
Other				3,019
Total general revenues				382,098
Change in net assets				73,108
Net assets - beginning				1,113,638
Net assets - ending				\$ 1,186,746

See Accompanying Notes to Financial Statements

Ruth Hughes Memorial District Library
Balance Sheet
General Fund
December 31, 2006

Assets

Cash	\$ 444,561
Taxes receivable	282,736
Penal fines and other receivables	<u>11,283</u>
 Total assets	 <u><u>\$ 738,580</u></u>

Liabilities

Accounts payable	\$ 4,510
Accrued payroll and related liabilities	6,832
Deferred revenue	<u>282,736</u>
 Total liabilities	 <u>294,078</u>

Fund balance

Unreserved	<u>444,502</u>
 Total liabilities and fund balance	 <u><u>\$ 738,580</u></u>

Ruth Hughes Memorial District Library
Reconciliation of the Balance Sheet of General Fund to the Statement of Net Assets
December 31, 2006

Total general fund balance			\$ 444,502
Total net assets reported for governmental activities in the statement of net assets is different because:			
Deferred property taxes			282,736
Capital assets used in governmental activities are not financial resources are therefore are not reported in the funds. Those assets consist of:			
Buildings and improvements	\$ 939,096		
Land and improvements	65,944		
Computers and equipment	56,091		
Furniture and fixtures	152,264		
Accumulated depreciation	<u>(416,395)</u>	797,000	
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances as of December 31, 2006 are as follows:			
Building loan payable		<u>(337,492)</u>	
Net assets of governmental activities			<u><u>\$ 1,186,746</u></u>

Ruth Hughes Memorial District Library
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund
Year Ended December 31, 2006

Revenues

Taxes	\$ 263,559
Grants	17,104
Charges for services	5,074
Fines and forfeits	66,029
Interest	21,832
Other revenue	3,019
Contributions and gifts	<u>1,276</u>
 Total revenues	 <u>377,893</u>

Expenditures

Recreational and culture	288,455
Capital outlay	10,981
Debt payments	<u>26,040</u>
 Total expenditures	 <u>325,476</u>
 Excess of revenues over expenditures	 52,417
 Fund balance, beginning of year	 <u>392,085</u>
 Fund balance, end of year	 <u>\$ 444,502</u>

See Accompanying Notes to Financial Statements

Ruth Hughes Memorial District Library
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of
General Fund to the Statement of Activities
Year Ended December 31, 2006

Net change in fund balances - general fund **\$ 52,417**

Total change in net assets reported for governmental activities in the statement of activities
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities
the cost of those assets is allocated over their estimated useful lives and reported as depreciation
expense.

Depreciation expense	\$ (40,445)	
Capital outlay	<u>15,570</u>	(24,875)

Revenues in the statement of activities that do not provide current financial resources are not
reported as revenue in the funds.

Property taxes	19,526
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Debt repayments are reported as financing uses in the general fund and thus
contribute to the change in fund balance. In the statement of net assets, however, repayment
of debt decreases long-term liabilities and does not affect the statement of activities.

Repayments of long-term debt	<u>26,040</u>
------------------------------	---------------

Change in net assets of governmental activities **\$ 73,108**

Ruth Hughes Memorial District Library
Imlay City, Michigan
Management's Discussion and Analysis
December 31, 2006

This section of the financial report provides discussion and analysis of the Ruth Hughes Memorial District Library's financial performance during the year ended December 31, 2006. The intent of this discussion and analysis is to provide a comprehensive review of the Library's financial activities and provide a look at its past and current financial position. Readers should also review the Library's financial statements, immediately following this section, to enhance their understanding of the Library's overall fiscal year 2006 performance.

This financial report is presented in the format required by the Governmental Accounting Standards Board (GASB) in their Statement Number 34, issued in June of 2000.

Using This Annual Report

This annual report consists of the following three parts: management's discussion and analysis (this section), basic financial statements and the required supplemental information.

These statements are organized to help the reader understand the financial position of the Ruth Hughes Memorial District Library as a whole. The government-wide financial statements provide information about the overall activities of the Library. The fund financial statements provide more detailed information about the Library's general fund. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The last section of this audit includes required supplemental information that supports and provides further clarity of the financial statements with a budgetary comparison schedule of fiscal year 2006 budget.

Government-Wide Financial Statements

The Government-wide statements provide financial information of the Library as a whole. They report on the governmental activities of the Library, which includes most of the Library's basic services, including programming, technology and building improvements. These activities

are primarily funded by property taxes, penal fines and state shared revenue. These statements use the full accrual basis of accounting, similar to private sector companies. There are two Government-wide statements: the Statement of Net Assets and the Statement of Activities.

The **Statement of Net Assets** includes all the assets and liabilities of the Library, whether short-term or long-term, and regardless of whether or not they are currently available. As a result, capital assets and long-term obligations of the Library are included in this statement.

The **Statement of Activities** accounts for current year revenues regardless of when cash is received or paid, consistent with the full accrual basis method of accounting. The intent of this statement is to summarize and simplify the user's analysis of the costs of various Library services.

When analyzed together, these two statements help the reader determine whether the Library is financially stronger or weaker as a result of the year's activities. Both statements report the Library's net assets, which is the difference between the library's assets and liabilities.

The change in net assets is one way to measure the Library's financial health or position. Over time, increases and decreases in the Library's net assets are an indicator of the stability of the Library's financial health. However, as a public services oriented governmental entity, the Library's goal is to provide a service to our community, not generate profits, as would a private corporation. As a result, other non-financial factors should be considered in assessing the overall health of the Library. Such factors would include the condition of the District Library's facilities and the property tax base within the District.

Fund Financial Statements

The Fund Financial Statements focus on providing more detailed information about the major funds of the Library and not on the Library as a whole, as reported in the Government-wide statements. The fund

Ruth Hughes Memorial District Library
Imlay City, Michigan
Management's Discussion and Analysis
December 31, 2006

level statements are reported on a *modified accrual basis*. Only those assets that are “*measurable*” and “*currently available*” are reported. Liabilities are identified and the terms are paid with yearly revenue, and/or funds allocated from the Library’s ‘fund balance’ as approved by the executive board. The fund statements provide a detailed short-term view of the Library’s operations and help in determining whether there are more or less financial resources available in the near future to finance the Library’s programs and services provided.

Summary of Net Assets

Government activities	<u>2006</u>	<u>2005</u>
Assets		
Current assets	\$ 738,580	\$ 662,802
Capital assets	<u>797,000</u>	<u>821,875</u>
Total assets	<u>1,535,580</u>	<u>1,484,677</u>
Liabilities		
Current liabilities	38,440	33,547
Long-term liabilities	<u>310,394</u>	<u>337,492</u>
Total liabilities	<u>348,834</u>	<u>371,039</u>
Net Assets		
Invested in capital assets	459,508	458,343
Unrestricted	<u>727,238</u>	<u>655,295</u>
Total net assets	<u>\$1,186,746</u>	<u>\$ 1,113,638</u>

A portion of the Library’s net assets reflect investments in capital assets (land, buildings and improvements, equipment and furniture), less any related outstanding debt used to acquire those assets. The Library uses these capital assets to provide services to patrons; consequently, these assets are not available for future spending. Although, the library’s

investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Statement of Net Assets Operating Results

Governmental Activities

	<u>2006</u>	<u>2005</u>
Revenues		
Program Revenue		
Charges for services	\$ 5,074	\$ 4,253
Operating grants and contributions	10,247	7,460
General revenue		
Property tax	283,085	269,923
Fines and forfeits	66,029	66,537
State aid - unrestricted	8,133	9,792
Interest and investment earnings	21,832	11,869
Other	<u>3,019</u>	<u>3,625</u>
Total revenues	<u>397,419</u>	<u>373,459</u>
Expenses		
Recreational and culture	<u>324,311</u>	<u>321,237</u>
Change in net assets	73,108	52,222
Net assets - beginning of year	<u>1,113,638</u>	<u>1,061,416</u>
Net assets - end of year	<u>\$ 1,186,746</u>	<u>\$ 1,113,638</u>

The net assets of the library increased \$73,108 during 2006. The breakdown of this change is shown above.

The *Statement of Activities* presented later in the Government-wide financial statements provides greater detail on the Library’s annual activity. As reported in the Statement of Activities, the cost of all government activities this year was \$324,311. However, the amount that

Ruth Hughes Memorial District Library
Imlay City, Michigan
Management's Discussion and Analysis
December 31, 2006

was ultimately financed by our taxpayers through property taxes was \$283,083, \$8,133 in state aid and \$58,321 in penal fine revenue.

The Library levied .8131 mills in property taxes on properties within the District. The District Library's current tax levy expired in August of 2006.

Local Property Tax History

<u>Fiscal Year</u> <u>Revenue</u>	<u>% of</u> <u>Revenue</u>	<u>Local</u> <u>Property Tax</u>
2006	70%	\$ 283,083
2005	75%	\$ 269,923
2004	72%	\$ 236,865
2003	73%	\$ 226,254
2002	64%	\$ 197,064

Budgetary Highlights

The Library continued its membership in Valley Library Consortium resulting in decreased interlibrary loan expenses. Continued membership in Mideastern Michigan Library Cooperative has made it possible for the Library to participate in the statewide delivery system which not only saved the library money in postage, but also allowed it to participate in MeLCat, a shared statewide union catalog of library holdings utilized in filling interlibrary loan requests.

Budget Adjustments

The Library's operational budget was amended at year-end to reflect a more accurate account of fiscal operations for 2006. Total actual revenues collected were reported to be \$9,779 more than what was budgeted and the total actual expenditures were reported to be \$12,751 more than budgeted. These amounts should be viewed as acceptable operational overages.

Revenue Threats

The Library's operational millage expired at the end of 2006. After a failed countywide attempt in August 2006 and a failed local attempt in November 2006 to secure 1.25 mills for ten years failed, the library reexamined operational expenditures and made an estimated \$40,000 in budgetary cuts at year-end to prepare for the 2007 fiscal year in the event another attempt at securing an operational millage were to fail. Cuts included, but were not limited to; personnel salary freezes and reduced operational hours at both Ruth Hughes Memorial and Attica Township Branch libraries. However, the millage was passed in the May 2007 election

Requests for Information

This financial report is designed to provide a general overview for anyone interested in the District Library's finances and to demonstrate the Library's accountability for the revenues it received. Questions concerning this report or requests for additional information should be addressed to:

Ruth Hughes Memorial District Library
Attention: Bryan J. Cloutier, Director
211 N. Almont Ave.
Imlay City, MI 48444-1004
Telephone: (810) 724-8043
Facsimile: (810) 724-2602

Ruth Hughes Memorial District Library
Notes to Financial Statements
December 31, 2006

Note 1 – Significant Accounting Policies

The financial statements of the Ruth Hughes Memorial District Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to the Library. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant policies are described below.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, normally supported by taxes and inter-governmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenue are reported as general revenue.

Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include

those of the Ruth Hughes Memorial District Library. The District Library is the primary government and there are no other component units that should be reported.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Library reports only one fund as follows:

- The General Fund is used to record the operations of the Library which pertain to maintaining and operating the Ruth Hughes Memorial District Library. Included are all transactions related to the approved current operating budget.

Ruth Hughes Memorial District Library
Notes to Financial Statements
December 31, 2006

Assets, Liabilities and Equity

Cash – The Library has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three (3) months or less when acquired.

Receivables – Property taxes are assessed as of December 31 and the related taxes become a lien on March 1 of the following year. The Libraries' taxes are due in July with the final collection date on February 28 before they are added to the County tax rolls. The delinquent real property taxes of the taxing entities are purchased by Lapeer County. These taxes have been recorded as revenue in the current year. Receivables are considered fully collectible and therefore no allowance for doubtful accounts has been made.

Capital assets – Purchased or constructed capital assets are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Library as assets with an initial individual cost of more than \$500. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The Library does not have infrastructure assets. Buildings, furniture and equipment, and leasehold improvements are depreciated using the straight-line method over the following useful lives:

Land improvements	10 to 20 years
Building and building improvements	20 to 40 years
Furniture and fixtures	5 to 10 years
Computers and equipment	5 to 10 years

Fund balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Note 2 – Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the State. The law requires appropriation acts to be adopted for the Special Revenue Fund.

The Board adopts appropriations utilizing the modified-accrual basis of accounting for all governmental funds. The appropriation level adopted by the Board is the level of control authorized under the Act. The Act requires expenditures to be budgeted on a functional basis. A library is not considered to be in violation of the Act if reasonable procedures are in use by the library to detect violations.

The Ruth Hughes Memorial District Library uses these procedures in establishing the budgetary data reflected in the financial statements:

1. The Library Director submits to the Board a proposed budget by January 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. The Library Director is authorized to transfer budgeted amounts between functions; however, any revisions that alter the total expenditures of any fund must be approved by the Board.
4. The budget for the Special Revenue Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year.

Excess of Expenditures over Appropriations

Expenditures exceeded the budget by \$12,751.

Ruth Hughes Memorial District Library

Notes to Financial Statements

December 31, 2006

Note 3 – Cash and Investments

Interest rate risk – The Library does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes authorizes the Library to make deposits into accounts of federally insured banks, credit unions and savings and loan associations that have an office in Michigan; the Library is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed or authorized investment vehicles. The Library has no investment policy that would further limit its investments choices.

Concentrations of credit risk – The Library has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. As of December 31, 2006, \$100,000 of the bank balance was covered by federal depository insurance and \$298,155 was uninsured and uncollateralized.

Note 4 – Capital Assets

Capital assets for the current year was as follows:

	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
Capital assets not being depreciated				
Land	\$ 24,399	\$ -	\$ -	\$ 24,399
Capital assets being depreciated				
Land improvements	31,845	9,700	-	41,545
Building and building improvements	939,096	-	-	939,096
Furniture and fixtures	152,264	-	-	152,264
Computers and equipment	50,221	5,870	-	56,091
Total capital assets being depreciated	1,173,426	15,570	-	1,188,996
Less: Accumulated depreciation				
Land improvement	20,564	2,207	-	22,771
Buildings and building improvements	206,590	23,477	-	230,067
Furniture and fixtures	113,889	8,601	-	122,490
Computers and equipment	34,907	6,160	-	41,067
Total accumulated depreciation	375,950	40,445	-	416,395
Net capital assets being depreciated	765,006	(24,875)	-	772,601
Governmental activities capital assets, net	\$ 789,405	\$ (24,875)	\$ -	\$ 797,000

Depreciation for the fiscal year ended December 31, 2006, amounted to \$40,445.

Note 5 – Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

Ruth Hughes Memorial District Library
Notes to Financial Statements
December 31, 2006

	<u>Unavailable</u>	<u>Unearned</u>	<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Property taxes	\$ 282,736	\$ -	2007	\$ 27,098	\$ 12,974	\$ 40,072
			2008	28,199	11,873	40,072
			2009	29,345	10,727	40,072
			2010	30,538	9,534	40,072
			2011	31,779	8,293	40,072
			2012-2016	179,348	21,012	200,360
			2017	11,185	77	11,262
				<u>\$ 337,492</u>	<u>\$ 74,490</u>	<u>\$ 411,982</u>

Note 6 – Deferred Compensation Plan

The Library offers its employees a Savings Incentive Match Plan for Employees (SIMPLE plan) IRA in accordance with IRS Section 408(p). The plan, available to Library employees earning at least \$5,000 in annual compensation, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or an unforeseeable emergency. The employer matches employee contributions at 3% of the employees elected salary contribution up to a maximum of \$1,000 annually. Employer costs for the year ended December 31, 2006 were \$3,191. The administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with accounting principles generally accepted in the United States of America, plan balances and activities are not reflected in the Library's financial statements.

Note 7 – Long-Term Debt

Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Building note payable	\$ 363,532	\$ -	\$ 26,040	\$ 337,492	\$ 27,098

Future principal and interest (3.99%) requirements for the building note, with final payment due March 2017, to be paid out of the Special Revenue Fund is as follows:

Note 8 – Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The District Library has purchased commercial insurance which covers general liability, auto liability, property damage, boiler and machinery, inland marine and injuries to employees. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 – Operating Leases

On January 1, 2006, the Library signed a lease agreement with Attica Township for library space. The lease agreement is for a three year period with an annual expense of \$1,000. The lease expires on December 31, 2008. Future minimum lease payments under the operating lease as of December 31, 2006 are as follows:

<u>Year Ending December 31,</u>	
2007	\$ 1,000
2008	<u>1,000</u>
	<u>\$ 2,000</u>

Ruth Hughes Memorial District Library
Notes to Financial Statements
December 31, 2006

Rental expense for the year ended December 31, 2006 was \$1,000.

Note 10 – Subsequent Event

The Library's requested millage passed the May 2007 election at 1 mill for a six (6) year term.

Ruth Hughes Memorial District Library
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
Year Ended December 31, 2006

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Actual Over (Under) Final Budget
Revenues				
Current local taxes	\$ 244,000	\$ 262,277	\$ 262,277	\$ -
Delinquent taxes	1,500	1,282	1,282	-
State Aid	9,000	8,133	8,133	-
Grants	-	-	8,971	8,971
Audio books	207	251	259	8
Copies	1,915	2,272	2,388	116
Fax	700	1,454	1,511	57
Patron cards	910	844	916	72
Miscellaneous	150	63	65	2
Library fines	5,627	7,408	7,708	300
Penal fines	48,500	58,098	58,321	223
Interest earned	7,000	21,812	21,832	20
Friends of the library	-	146	146	-
Other contribution from private sources	775	1,120	1,130	10
Refunds and rebates	50	2,954	2,824	(130)
Other	10	-	130	130
Total revenues	320,344	368,114	377,893	9,779
Expenditures				
Wages and salaries	153,000	145,000	151,254	6,254
Payroll taxes	13,600	10,946	11,573	627
Retirement fund contribution	4,000	4,000	3,191	(809)
Health insurance	9,625	8,847	8,839	(8)
Books	23,800	22,500	20,957	(1,543)
Audio books	200	50	16	(34)
Compact discs	2,000	1,600	1,902	302

Ruth Hughes Memorial District Library
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
Year Ended December 31, 2006

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Actual Over (Under) Final Budget
Videos	\$ 700	\$ 845	\$ 844	\$ (1)
Periodicals and reference	2,900	2,975	2,975	-
Supplies	3,650	3,339	3,336	(3)
Professional and contractual services	24,755	24,698	23,457	(1,241)
Postage	500	1,000	1,044	44
Insurance	9,500	8,666	8,666	-
Library programs	450	539	539	-
Continuing educations	2,000	1,179	1,179	-
Building maintenance and repair	2,300	13,457	13,537	80
Travel	1,475	1,015	1,015	-
Library promotion	25	69	69	-
Rent	1,000	1,000	1,000	-
Utilities	19,691	16,316	16,344	28
Membership dues	450	571	571	-
Miscellaneous	150	2,071	2,071	-
Refunds and rebates	50	44	44	-
Capital outlay	2,025	1,926	10,981	9,055
Debt principal	26,040	26,040	26,040	-
Debt interest	14,032	14,032	14,032	-
Total expenditures	317,918	312,725	325,476	12,751
Excess (deficiency) of revenues over expenditures	2,426	55,389	52,417	(2,972)
Fund balance - beginning of year	392,085	392,085	392,085	-
Fund balance - end of year	\$ 394,511	\$ 447,474	\$ 444,502	\$ (2,972)

June 18, 2007

To the Library Board
Ruth Hughes Memorial Library

We have audited the financial statements of Ruth Hughes Memorial Library for the year ended December 31, 2006, and have issued our report thereon dated June 18, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated December 31, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Ruth Hughes Memorial Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Ruth Hughes Memorial Library are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during Year. We noted no transactions entered into by Ruth Hughes Memorial Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Ruth Hughes Memorial Library's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Ruth Hughes Memorial Library, either individually or in the aggregate, indicate matters that could have a significant effect on the Ruth Hughes Memorial Library's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Ruth Hughes Memorial Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of Library Board and management of Ruth Hughes Memorial Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Yeo & Yeo, P.C.

Marlette, Michigan